CHAPTER VI
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IMPACT ON:

(i) SOCIO-CULTURAL ASPECTS
(ii) INDUSTRIAL RELATIONS
(iii) ENVIRONMENT

Socio-Cultural Impacts

After examining the impact of the activities of multinational corporation from the political and economic angles, it would be useful also to briefly discuss certain direct and indirect effects of operations of multinational corporations, particularly in the developing countries, in regard to the change they bring about in the socio-cultural sphere as well as in the sphere of employment and labour. The main object of this study is directed towards an assessment of the threats the activities of the multinational giants pose to the sovereignty of nations and finding ways and means to tame them and control their activities. A question may arise as to how socio-cultural effects of the multinational companies, which fall mainly in the sphere of behavioural patterns of society, could be controlled by legal means. It is true that changes in attitudes and values are not susceptible of state control, but to the extent it is
possible to prevent transmittal of such influences of the transnational corporations, it may be useful to identify areas. It is perhaps because of this reason that the Group of 77, in the areas of concern submitted to the Commission on Transnational Corporation, have listed the following items as meriting study.

"Item 21: Lack of respect of the socio-cultural identity of host countries". (1)

Even the delegations of the advanced developed countries have expressed the view that it is necessary to examine the effect of transnational corporations' operations and activities on the social and cultural patterns of the host countries, the positive or negative impacts which they may have on such countries and the extent to which host countries make their expectations known in these respects.2

The Latin American countries, which gave a separate note on the areas of concern stated:

The activities of the transnational corporations produce effects in the host country other than of an economic nature that, on occasion, are even more important than the strictly economic. The social institutions, cultural values,

2 Ibid., p. 24.
traditions, the usages and customs of a nation, are affected by the attempts of the transnational corporations to transplant in the host country, their own models of social development that, in more than one case, have differed considerably from the cultural identity and social structure of the host country. That is especially true of developing countries in that the transnational corporation, when importing a culture peculiar to industrialized countries, distorts the local social and cultural character. In essence it is necessary for the transnational corporations to conform not only to formal, legal prescriptions, but also to the political features, uses and customs observed by the host country.

One of the effects of the operations of the transnational corporation is that it distorts consumer tastes by pushing un-needed products upon them and encouraging consumerism, thereby imposing a pattern of living not necessarily in the interest of host country's population.

It was seen in the previous chapter that transnationals prefer to dominate those consumer industries where profit is the highest and the investment is lowest. A further objective is to achieve a standardization of tastes and preference for branded products in various countries, which would help them to increase their turnover, reduce costs, and maximize profits. (This drive for standardization of tastes, achieved through advertisement media, and holding periodical seminars with the class of people who help to shape public opinion, is practised on a wide scale in the

3 Ibid., pp. 33-34.
drugs and medical equipment industry, food and food products, and other consumer-oriented products) as, for example, arranging seminars to discuss the effects of a particular medicine or introducing educational and training facilities to influential elite groups, such as engineering graduates, students from universities and employees in Government, and public sector. The third world countries, including India, have thus been tied to a pathetic dependence on foreign branded products. In regard to drugs and pharmaceutical products, this aspect has been brought out in many studies of UNGTD\textsuperscript{5} and by Haathi Committee in India.\textsuperscript{6} India has not yet been able to get out of the grips of transnational companies operating in drugs and pharmaceutical.

When the family planning programme was at its height in India, G.D. Searle and Co., manufacturers of birth control pills, persuaded the Indian society of Basie Obstetricians and Gynaecologists to organise a seminar as a cover for its commercial propaganda to sell its birth control pills. Serious doubts about the efficacy of these pills had arisen and British studies had reported serious

\begin{itemize}
\item \textsuperscript{5} See, for example, UN Doc. TD/B/C.6/4, Major Issues Arising from the Transfer of Technology: A Case Study of Pharmaceutical Industry (New York, 1975).
\item \textsuperscript{6} Government of India, Haathi Committee Report (New Delhi, 1975).
\end{itemize}
diseases in several individuals using the pills. Some of the executives of the US company had gained familiarity with top Indian officials to such an extent that one of them in a letter to the then Secretary of a Ministry, suggested "a massive public relations campaign to free doctors, state administrators and the man in the street from any fear that the use of the pill carries any serious dangers with it".7

The cult of bottle feeding of babies in preference to breast-feeding has been so pervasively spread by the baby-food and powdered-milk manufacturers, that the World Health Assembly had to pass a resolution on 24 May 1974 (Geneva), pointing out "the general decline in breast-feeding related to socio-cultural and environmental factors, including the mistaken idea caused by misleading sales promotion that breast-feeding is inferior to feeding with manufactured breast milk substitutes; and that this decline is one of the contributory factors to infant mortality and malnutrition, in particular in the developing world". The resolution urged the member countries to review sales promotion on baby foods and to introduce appropriate remedial measures, including advertisement codes and legislation where

7 Commerce (Bombay), 14 February 1976.
necessary. Nestle is a such a leading baby-food manufacturer in the developing countries and its production in India of milk and milk products rose to nearly 12,000 tons in 1974 against less than 2,000 tons in 1962. Its 'Lectogen', the most expensive proprietary food per unit protein and probably the most advertised, is the most used milk food.

On 1 January 1976, the Economic Times reported that the US Government had ordered a giant transnational pharmaceutical company to declare, through the mass media, that its world famed mouth-wash did not prevent cold and sore throats, as claimed in its advertisements and that tests had proved the claims to be incorrect or exaggerated. This particular brand of mouth-wash has been sold for a long time and is still being marketed in many countries including India.

8 See Susan George, "Nestle Alimentana SA : The Limits to Public Relations", Economic and Political Weekly (Bombay), 16 September 1978, p. 1593.


10 George, n. 8, p. 1592.

11 Economic Times (Bombay), 1 January 1976.
As regards educational and training facilities given to persons not belonging to the organisation, with a view to creating a potential group of public relations men, who, after their training either by themselves or through the organisations they are employed in, would influence the purchase of the goods produced by these transnational companies, is well illustrated in the case of Phillips NV. Phillips NV has set up a pilot plant in the Netherlands, where manufacturing techniques can be tried and potential managers from the third world can be trained. Engineering students in countries where there is a large Phillips organization - for instance, in India and Mexico - are offered the opportunity to complete their studies at Phillips's subsidiaries for gaining practical experience. When they return and get employment, they constitute valuable public relations men for sponsoring purchase of Phillips products.

The creation of new tastes naturally has an unsettling effect on the traditional ways and culture of the society. It is not being argued here that this unsettling effect is always bad and tradition is always good. But what is required to be noted is, that the directions of the cultural

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change has not been shown so far to be of much benefit to the society, particularly in countries where the cultural background is different from that of the country from which the transnationals originate.) In a poor country, where per capita income is low, expensive tastes in the name of reaching higher standard of living would draw away resource from the needed areas of investment to purchasing high priced consumer products. This could be so even when a particular brand of consumer product is withdrawn as a result of closing down the industry, since an enslaved public craves for an identical substitute. Coca Cola has closed down its factories in India, but many substitutes are competing in imitating the Coca Cola in colour, bottling and labelling.

The next socio-cultural impact relates to loyalty. Transnational corporation insists on loyalty to the corporation as a first principle and a pre-requisite for continued employment. Since the rates of salary and perquisites offered by these corporations are higher than those offered locally, there is naturally a keen competition to enter these transnational corporations, and the cream of educated youth is drawn towards such employment. A survey conducted by the author has shown that 71% of the parents prefer their sons to get in foreign companies in preference to local companies. Amongst these employees, a loyalty to
the company is inculcated which sometimes blurs the distinction between loyalty to one's country and loyalty to one's company.

Raymond Vernon has pointed out in his book, *Sovereignty at Bay*, that presence of foreign investment in any local economy helps to boost up the strength of certain local groups and push down others. With the new foreign companies coming on the scene, offering new salary structures and expense accounts for a particular style of living, the real strength of various elite groups have predictably changed. In fact, it is this new group, which, because of its contacts with influential Government officials and political leaders, is most vocal in its advocacy of the need for increasing private foreign investment. Max Gloor, a Director of Nestle, once said:

*We cannot be considered either as pure Swiss or as purely multinational, i.e. belonging to the world at large, if such exists at all. We are probably something in between, a breed of our own. In one world, we have the particular Nestles citizenship.* (14)

Nancy Foy in her *The IBM World* brings this out strikingly in a paragraph "My country or my company". (15)


The ostentatious living styles of foreign personnel as compared with those of domestic employees are a source of both of envy and resentment. Styles of management directed towards efficiency but insensitive to local cultural values may appear to people in the host country as arrogant and dehumanizing. Even the local people who receive a good technical training through working with the multinational corporations may be regarded as unduly influenced by alien values. Although these reactions may change with the change in attitudes on both sides, the intensity of the feelings that have been aroused should not be underestimated. (16)

Industrial Relations

Another aspect requiring consideration relates to industrial relations. The speed with which transnational corporation is enabled to shift its production plan to suit its global strategy, can and does cause industrial unrest by creating sudden unemployment in the area from which production is shifted. This, in turn, affects the economy of the host state and creates further problems of strikes by these employees leaving the host state to tackle it. This was illustrated when negotiations took place between the subsidiary of International Nickel, a Canadian corporation at Swansea in Wales, and the workers represented by the British

Transport and General Workers Union. In the middle of the negotiation, there was a strike in Canada and the company broke off negotiations and the production in Wales was shut down. The company was able to sit it out because of its economic strength. The labour had to yield. In early 1970, Henry Ford II threatened British Industry manufacturing Ford motors that he would shut down the plant and shift it if there was a strike. 17

Since the multinational corporations have an integrated world-wide economic system, and the labour unions are divided nation-wise, they are not in a position to challenge the gigantic bargaining power possessed by the global corporations. Moreover, different levels of wages and skills, and high technology and development process adopted by multinational corporations, weaken the labour position in the host country. The host Government in such a situation becomes helpless, because if it seeks to interfere, the multinational may show its displeasure by moving the industry to another country. The weakening of the labour position has been forcefully brought out by a resolution of the General Conference of the International Labour Organization at its 56th session. The ILO convened two

special tripartite meetings in October and November 1972, and May 1976 and considered the principles for adoption in regard to employment, training conditions and life and industrial relations. India, one of the members of this tripartite meeting, expressed the following views in regard to the social and labour aspects and the activities of the transnational enterprises in India.

(i) It pointed out in the first instance that the beneficial effects of the activities of transnational enterprises in the form of expansion of employment were only marginal, and were far outweighed by the negative effects resulting from the refusal of the corporations to give any guarantees of employment, and the possibility and threats of temporary or permanent transfer of operations by them in general or as pressure tactics.

(ii) The whole method of working of transnational corporations, their employment and wages policies, their training programme, etc, were not integrated with the development plans of the host country.

(iii) In spite of the claimed decentralisation of control in regard to labour relations matters, in many cases the headquarters of transnational corporations stayed closely involved in the labour relations activities of their subsidiaries.
(iv) Though the wages paid by the subsidiaries of the transnational enterprises were better than those of national companies. This irks the workers' unions which feel that the wages should have some relation with those paid in other areas by the same company based on the ratio of labour productivity in the subsidiary and in the other countries.

(v) Lastly, the unwillingness of the transnational corporations to give information in regard to their operations was always an important irritant for workers' union and governments. 18

Environment

Last, but not least, the effect of the activities of the transnational corporation on environment has been engaging increasing attention of international lawyers and jurists, particularly since the International Conference held at Stockholm in June 1972. The 27th Session of UN General Assembly, held in 1972, endorsed the recommendations of the Conference which informed the world of the dangers posed by the unchecked industrial activities, and resolved to establish the United Nations Environment problems on a global scale. Health hazards posed by industrial activities have been analysed by many countries, including India. It has

18 From un-published note.
been proved that atmospheric and water pollution has risen very considerably as a result of industrialisation. The main pollutants are smoke and soot from coal burning industrial furnaces and acid and other chemical effluents from factories manufacturing or processing chemicals, dyes, paper and pulp, textiles, leather and a host of other products. Marine pollution by oil and chemicals has serious effects on marine life, and extensive stretches of the seas are rapidly becoming hazardous to marine plants and animals. Toxic materials, introduced into streams and rivers in the shape of pest control and crop protection agents, form another element endangering human life.

It may be argued that environmental pollution is the result of all industrial activity, whether such activity is from locally-owned industrial plants or foreign-

19 Note: An estimate of the global pollution gives the following:

(i) $8.5 \times 10^6$ tons of carbon dioxide pollutes the air over a year and 20 per cent of this due to human activities.

(ii) $1.5 \times 10^8$ tons of sulphuric dioxide pushed out in the atmosphere of whose 7% is from combustion fuel.

(iii) Dust and smoke in the air is produced to the extent of $2.5 \times 10^9$ tons and 1/5th of this is due to human activity.

"Dr. H.K. Afshar, "Earth's Impending Physical Environment" quoted in Economic and Scientific Foundation, Environment : Problems of Developed and Developing Countries (New Delhi, 1976), p. 7."
owned factories and transnationals cannot be singled out in this regard. It is true that industrial activity in general is pollution-oriented. But where the factories are large and employ technology which results in discharge of high quantities of pollutants, the responsibility of providing adequate safeguards falls on these industrial concerns. Seeing that a majority of the 500\textsuperscript{20} largest industrial corporations listed by Fortune are in industries with high capacity for pollution, viz. petroleum, chemicals, steel, and automobile, their responsibility in polluting the atmosphere cannot be ignored. Since the cost of providing pollution safeguards is considerable, the transnational corporations are looking for countries where statutory or administrative prescriptions are lacking for installation of such safeguards. Many of the undeveloped countries lack such instruments of control and have, therefore, become victims of the activities of transnational corporations spoiling their environments.\textsuperscript{21}

These poor, largely uninformed, under-developed countries, with a low standard of environmental safeguards,

\textsuperscript{20} Fortune, August 1977.

\textsuperscript{21} UN Doc. ST/CN/6, "National Legislation and Regulations Relating to Transnational Corporations" (New York, 1978).

\textbf{Note:} India has still to enact a Pollution Act.
have become hunting grounds by the transnational corporations generally to avoid the cost necessary to protect environment. It is important to note that the World Bank in its report pointed out that if adequate steps were not taken at the early stages of installation of industry, any remedial action for environmental protection is taken only at a later stage would cost unduly more. It is high time some serious steps are taken to protect the innocent from getting their environments spoiled.